CASE STUDY: CUSTOMER SERVICE THAT HAS THEM COMING BACK FOR MORE

inc.®

THE MAGAZINE FOR GROWING COMPANIES

THE TRUTH ABOUT START-UPS

SURPRISING INSIGHTS INTO WHY NEW BUSINESSES FAIL OR SUCCEED

[redacted]

[redacted]

Anatomy of a Part[redacted]

[redacted]

Business for Sale: A California Vineya[redacted]

[redacted]

How to Deliver Bad News

THE HOTTEST UPSTART: TIM DEMELLO

#144F**********ALL FOR STATE
#4520WCSRI98 2# 460541 044D
CONG INFO SERV COMPLIMENTARY
SRI ACQUISITION E390
4520 E WEST HWY #9G
BETHESDA MD 20814-3319

CONTENTS

FEATURES

44 MANAGING IN HARD TIMES
Bad News BY EDWARD O. WELLES
When your business experiences tough times, how much should you tell your employees, and when should you tell it?

52 INC. COVER STORY
The Truth About Start-ups BY LESLIE BROKAW
Why does one new business succeed while another quickly perishes—and what can be learned from each? We revisited the 27 companies profiled in Anatomy of a Start-up over the past three years and came up with some surprising answers

71 REAL BUSINESS
Coping with AIDS BY SHELIA BRANTS
How my company endured the trauma of losing one of our most valuable employees

78 CASE STUDY: PARTNERSHIPS
Reconcilable Differences BY JOSHUA HYATT
Partners rarely split over matters of grand strategy. It's the minor skirmishes that nibble away at common ground until there's none left. So it was with Arthur Eisenberg and Cap Pannell, good friends whose rapid accumulation of differences and delusions forced them to scrap the company they had worked so hard to create

88 **Customer Service: The Last Word** BY JOHN CASE
Picture this. The products you bring to market are direct hits with your customers, higher in quality and lower in price than your competitors', and completely and flawlessly supported after the sale. A small company's pipe dream? Not if you're Intuit

COLUMNS

28 **Hotline:** Unfair Trade. BY MARTHA E. MANGELSDORF
Small-company exports could put a big dent in the U.S. trade deficit. Why, then, do we make it so hard to get started?

109 **Growth Strategies:** The Best of Intentions. BY TOM RICHMAN
It's not enough to want to do well; you've got to know how

113 **Financial Strategies:** On Target. BY JILL ANDRESKY FRASER
Learning how to forecast accurately can spell the difference between a business's growth and stagnation

116 **Managing People:** Make Me a Match. BY BARBARA RUDOLPH
For some employee searches, a headhunter may be the answer

119 **Boards:** Confessions of a Director.
Hambro International's Art Spinner says most CEOs don't know how to make good use of boards. Here he tells you how

DEPARTMENTS

12 FYI
17 Letters
21 The *Inc.* Network
40 New Businesses
106 Hands On
136 The American Dream: Business for Sale

INC. COVER STORY

52 Start-ups
For Thomas Manning's, flexibility was key

78 Splitting Up
Why partnerships fail

88 Scott Cook
Building a company on customer service

COVER PHOTOGRAPH
by John Madere

HANDS ON

A MANAGER'S NOTEBOOK

MARKET RESEARCH

USSR yellow pages

It hasn't been easy for U.S. companies to trade with private businesses in the Soviet Union. Few people know where those businesses are, since the USSR lacks the most basic market research tool of all—telephone directories. But now comes the first compendium of Soviet private enterprises, published by a venture between FYI Information Resources, in Washington, D.C.; Cooperative Reserve, in Dnepropetrovsk, Ukraine; and North River Press, in Croton-on-Hudson, N.Y.

The English-language edition, the *Soviet Independent Business Directory*, contains key information—size, contacts, activities, addresses, and phone numbers—on more than 2,100 Soviet companies in 70 industry sectors, from antiques to sporting goods.

For information write to FYI, 735 8th St. SE, Washington, DC 20003. Or call (202) 544-2394; fax (202) 543-9385. To order the English edition ($110), write to North River Press, Box 241, Croton-on-Hudson, NY 10520. Or call (914) 941-7175; fax (914) 941-9579. ❑

Kaye Counts relies on an employee-run safety committee.

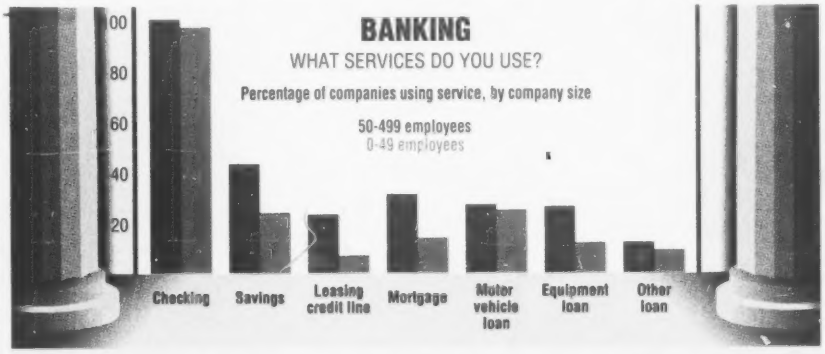
MEETINGS

Safety first

Old work habits die hard. Sun Sportswear, a $73-million apparel company in Kent, Wash., counters the problem of getting employees to improve their work environment by letting them decide what needs to be done.

An employee-run safety committee, comprising a rotating group of 12 volunteers from various departments, helps manage the company's environment by suggesting better ways to store hazardous materials and educating fellow employees on safety procedures. The group meets monthly; employees receive a paid day off for their services.

"The committee conducts a no-holds-barred tour of inspection and presents management with an informal report card," says chief operations officer Kaye Counts. "It's quite a service for the company and employees." ❑



Source: "Banking Markets and the Use of Financial Services by Small and Medium-sized Businesses," a survey of 3,405 companies. Staff Studies Series, No. 160; Board of Governors of the Federal Reserve System, Washington, D.C., 1990

CUSTOMER SERVICE

Obedience school

Sudden sales success can overwhelm a young company. If your customer-service staff is too small to handle a barrage of calls, take a page from Meridian Travel, in Cleveland.

New corporate clients of $21-million Meridian spend a half day attending a "travel smart" seminar, complete with catered lunch, hosted by Meridian's corporate relations department at the customer's offices. Seminar topics are based on the glitches travelers most frequently report, and include "insider" travel tips as well.

"After the seminar customers feel in control, and we have fewer crises to manage on our end," says CEO Cynthia Bender. ❑

CAPITAL

Tech funds

Looking for funding for technology-related product development that doesn't involve giving up equity? One possible source is the Israel-U.S. Binational Industrial Research and Development (BIRD) Foundation. The foundation will finance up to 50% of product-development costs for promising projects that involve some sort of joint venture between an Israeli company and a U.S. one.

BIRD invests carefully and has a track record of $2 billion in product sales generated by projects in which it has invested $69.6 million.

For more information contact the BIRD Foundation, 3 Tevuot Ha'aretz St., P.O. Box 39104, Tel Aviv 61390, Israel; phone 972-3-470710; fax 972-3-498341. ❑

CHARTS: ELIOT BERGMAN; PHOTOGRAPH: KEITH BROFSKY

INTERNATIONAL

Translation, please

When you export to foreign countries, translating your product into other languages can be expensive. Roy Kessler gets his distributors to share the burden.

Kessler's $6-million Tempe, Ariz., company, PC Globe, put an atlas onto software. It's a logical product to distribute internationally, but that requires translation of software text and instruction materials.

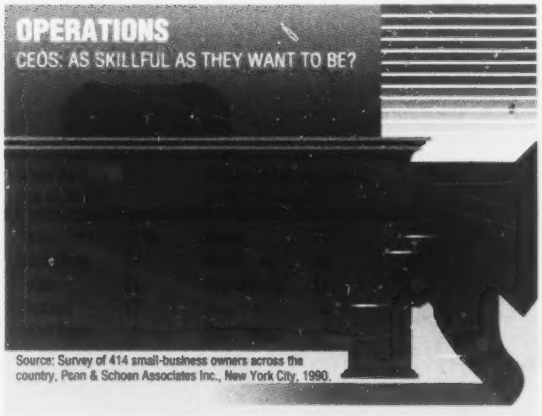
Distributors who wanted to sell versions of the product in PC Globe's smaller markets—Dutch, Swedish, and Finnish—translated the material themselves, saving PC Globe the up-front cost of translation. And PC Globe retains the foreign copyrights, allowing it to add more distributors from those countries later if necessary. ❑

MARKETING

Old booths

Thinking about investing in a trade-show booth? Buying a used one can offer substantial savings, says Joseph Mallon, executive vice-president of NovaSensor, a $10-million Fremont, Calif., manufacturer of silicon sensors.

NovaSensor had a limited marketing budget but wanted to make a big impression at trade shows. So Mallon turned to a San Jose company that specializes in selling used booths, and for the $34,000 he spent to buy and alter a large corporation's old booth, he got a booth that would have cost $150,000 to build from scratch. Plus, he was able to remodel it more quickly than a new one could have been designed. ❑



Source: Survey of 414 small-business owners across the country, Penn & Schoen Associates Inc., New York City, 1990.

COMPENSATION

Timely sales incentive

When collections slip, the last thing you want to do is give customers a reason *not* to pay you. "Unhappy customers tend to stretch their payments or not pay at all," says Craig Tysdal, vice-president of sales for Network Equipment Technologies. To bolster customer service and get payments in the door, NET pays sales managers bonuses based on the age of accounts receivable.

Twice a month, the Redwood City, Calif., company publishes a profile of receivables, broken down by region and district, that shows which accounts are current and which are 30, 60, or 90 days old or more. The bonus, paid quarterly, is determined by how well managers meet goals for each level of the aging schedule. The more the sales manager exceeds the goals for a particular level, the larger the bonus he receives. Tysdal reports that since the bonus system was set up, a year ago, the number of receivables that are more than 90 days old has been cut in half. ❑

MANAGING PEOPLE

Improving literacy

"Who wants to be the first person to raise his hand and say he can't read?" asks Roland S. Boreham Jr., chairman and CEO of Baldor Electric Co., headquartered in Fort Smith, Ark. So to coax workers in Baldor's Columbus, Miss., plant into an on-site literacy program, Boreham used video testimonials from six employees who had the courage to participate in the program and tell others how it helped them learn to read. Boreham used an employee interviewer and one VHS video camera to shoot the testimonials.

About 25% of the 350 workers in Columbus enrolled in the program. "The messages really hit home," says Boreham, who expects fewer mistakes on the company's electrical-motor assembly lines because more employees can read manuals, job specifications, and invoices. ❑

CEO'S READING LIST

The Grapes of Wrath, by John Steinbeck, 1939

"*The Grapes of Wrath* is about people like my parents, who were Okies. My father was a Dust Bowl worker who migrated from Stillwater, Okla., to California and was mistreated. The book makes you realize that a lot of human potential is overlooked because of prejudice against other cultures. It influenced the way I manage my employees.

"I now have 60 Asian immigrants working in my jewelry-design and -manufacturing business. Like the Okies in *The Grapes of Wrath*, the Asian refugees had to give up everything to get here, and have found that it is not the promised land.

"To help the Asian workers adjust, we offer weekly English lessons. And we have ESL lunches, at which everyone brings in a native food and we phonetically spell out the English word for it on each dish.

"The American-born managers here might not think to invite the Asian supervisors to a seminar or a rep retreat, because they figure the Asians won't understand anyone or get anything out of it. I always invite them even if they can't communicate very well. They're so enthusiastic that in the end I think they end up learning more than anyone else."

—Tabra Tunoa, CEO
Tabra Inc.
Fairfax, Calif.

Reported by Teri Lammers, Leslie Brokaw, Jay Finegan, Susan Greco, and Martha E. Mangelsdorf

Nineteenth-century turreted stone château

Sixty acres of newly terraced vineyards

California wine country

BUSINESS FOR SALE

CALIF. VINEYARD/WINERY

THE BUSINESS Two businesses, actually: a currently dormant but onetime award-winning winery on 123 Napa Valley acres (19th-century turreted stone château, Victorian horse barn, two swimming pools, etc.), and an operating vineyard, on 60 of those acres, which has been recently replanted and terraced with red-grape varieties. When the vines mature, in seven years, the winery and vineyard together can be expected to produce 30,000 cases of premium wines.

FINANCIAL SUMMARY (in $ thousands)

	1989	1990	1998
Gross sales	$279	$263	$4,291
Net profit	159	143	1,861

Note: 1989 and 1990 figures reflect the vineyard operation only. Figures for 1998 are based on the assumption that the winery, too, will be running at capacity.

PRICE $5.9 million

OUTLOOK Are boutique wineries good businesses? Statistical evidence is unreliable; the industry is unusually secretive, and insiders claim that as many labels are sustained by ego as by cash flow. In this winery's favor are the 125% four-year sales increase posted by California premium wines in the face of declining domestic wine consumption overall, and the continually rising prices fetched by the area's Napa cabernet sauvignon grapes—up 109% over the past five years. The bad news? The number of wineries churning out premiums has also been rising, and it's never easy to push a $20 product in a saturated market. On-site tours and tastings help, and this winery is one of the lucky few in the county that have the requisite permits to accommodate visitors. Still, what this winery doesn't have yet is wine. An investment of several million dollars atop the purchase price will be needed before bottles are ready for sale.

PRICE RATIONALE It's the land that counts, and the $48,000 per acre that this property costs is at the high end of Napa County's $35,000-to-$50,000-per-acre range for developed vineyards. With the land comes potential: one analyst says the projected eventual profit margin of 43% isn't unusual, and neither is the seven-year wait to achieve it.

PROS A head start in planting by a vintner who, with a sister winery, has already proved himself a Napa star; the cachet of château living; the aforementioned healthy profit margin.

CONS Big-time risk. Sure, this vineyard won prizes for its early '80s cabernets, but will finicky enologists applaud its '90s vintages, too? And seven years from now, will the public want to buy them? It will take a lot of money to find out.

—Alessandra Bianchi

***Inc.* has no stake in the sale of the business featured.** The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Land Brokers, in St. Helena, Calif.

COPYRIGHT © 1991 BY GOLDHIRSH GROUP, INC. All rights reserved. Editorial and executive offices at 38 Commercial Wharf, Boston, MA 02110. INC. (ISSN 0162-8968) is published monthly by Inc. Publishing Company, 38 Commercial Wharf, Boston, MA 02110. Subscription rate for U.S. and Possessions, 12 issues $25. All subscription correspondence should be addressed to INC. magazine, P.O. Box 54129, Boulder, CO 80322-4129. Please allow at least six weeks for change of address. Include your old address as well as new, and enclose if possible an address label from a recent issue. Single-copy requests: call (617) 248-8426. Second class postage paid at Boston, MA, and additional mailing offices. Postage paid at Mississauga, Ontario. POSTMASTER: Send address changes to INC. magazine, P.O. Box 54129, Boulder, CO 80322-4129. Material in this publication must not be stored or reproduced in any form without permission. Requests for permission should be directed to Permissions Coordinator, INC. 38 Commercial Wharf, Boston, MA 02110. Inc. is a registered trademark of Goldhirsh Group, Inc.

APRIL 1991 VOL. 13 NO. 4

ILLUSTRATIONS: ROBERT ANDREW PARKER